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Anderson, Benjamin McAlester

When prices drop

[New York]

1918

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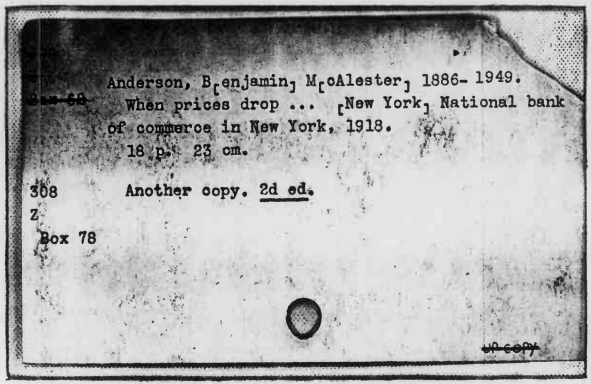

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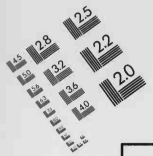

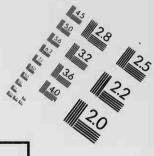

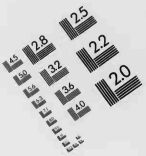

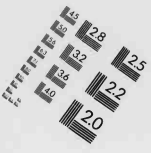

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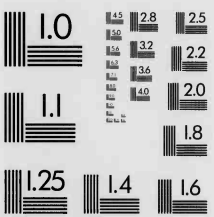

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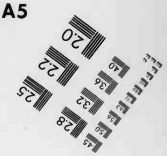

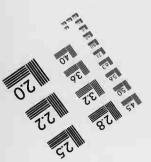

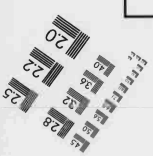

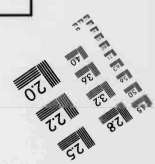

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When Prices Drop

By

B. M. ANDERSON, JR.

SECOND EDITION

National Bank of Commerce
in New York

DECEMBER, 1918

The text of this booklet was completed November 12, 1918, the day after the news of the armistice became public. After further study of the subjects treated, it was felt that no revision was necessary in view of recent developments. Therefore the text of this second edition, put to press December 2, is identical with the first edition.

Foreword

A most impressive aspect of America's participation in the war has been the way in which her plans were reasoned out and constructed as a well-knit whole. Despite inevitable failures and set-backs at some points, a large view of this country's participation impresses one that it has been an efficient and adequate intellectual achievement, democratically conceived and carried out by the nation in a vigorous, practical, American way.

We have happily avoided the financial blunders of our Civil War greenback experiments and the military inexpediencies of the volunteer system in the Spanish War. Thus our plan was built in the light of our own experiences and out of our own resourcefulness; but we also borrowed heavily on the experience of our Allies.

Ordinarily, men and nations need the bitterness of their own experience before they learn, but we have achieved, to a degree I believe scarcely precedented in history, the ideal method of profiting by the experience of others. Guided by that experience, we have recast our political, financial, scientific, social, cultural and personal habits, both as individuals and as a nation, to a degree we did not ourselves believe possible. We have done so because we knew it was necessary to the highest efficiency of our war plans.

If we were able to do these things in the hurry of a war emergency for which we were not prepared, we surely can shape our future to a still larger degree to meet the problems of the great after-the-war reconstruction era which we can foresee and for which we can prepare. The readjustments that must come in this period should not be left entirely to the natural evolution of trade and politics. This does not mean, however, that our commercial development should in any sense be subjected to paternalistic government control. It should mean that by intelligent public planning, democratically worked out, local and individual initiative and enterprise would be guaranteed

greater security and greater freedom, unhampered by such uncertainties of commerce as are preventable.

We must devote ourselves to planning as thoughtfully for peace as we have shown we are able to do for war. I believe that the discussion of the conditions we can expect and how we should prepare to meet them contained in the following pages is a well-reasoned analysis of the situation and a fruitful suggestion for the future. It contains material and thought that bankers, business men and statesmen should have in mind in preparing to fulfill their part in the coming era. America will be called upon for greater service to the world than ever before in the peace to come, just as she has been in the war that is passing. Therefore, I commend these pages to the careful reading of thoughtful men.

JAMES S. ALEXANDER,
President.

When Prices Drop

By

B. M. Anderson, Jr., Ph. D.
of the
National Bank of Commerce in New York

A sharp drop in commodity prices will follow the end of the war, but we will have no crisis. Wages will also drop, but fair play on the part of both capital and labor will keep this from resulting in industrial turmoil. However, a continuance of active business will depend upon the policies which governments, banking and business pursue to further the rapid repair of the wastes of war and the restoration of normal conditions throughout the world.

This continuance of our business activity can be confidently counted upon only if we avoid the mistakes into which war excitements and their distortions of judgment may lead us. If we are generous to our Allies and just to our enemies the whole world can revive together, and the prosperity of the United States will be assured.

The belief that there will be a drastic drop in prices is based on obvious conditions. With a vast volume of labor rapidly being discharged from munition factories the world over to resume the production of normal supplies; with steel, copper, coal, shipping and other essentials released; with 50,000,000 soldiers returning to farms and factories, there will be an immense increase in the volume of goods available for civilian consumption. Prices should fall, even before this actual transformation is carried far, because wholesale markets commonly forecast impending changes.

No Crisis at Close of Civil War

Under ordinary conditions this would mean a business crisis with widespread bankruptcy. Yet, to take a historical precedent local to America, the veritable collapse of prices in the North, following the Civil War, produced no such crisis. Not only so, but fortunately the reasons it did not are clear and may be used for our present guidance.

In the six months from January to July, 1865, the general average of wholesale prices slumped over 30 per cent. Such a slump coming unexpectedly would seem to mean universal bankruptcy. Most merchants, having bought goods largely with borrowed money and meeting, in effect, a 30 per cent depreciation when they undertook to sell those goods, would be unable to pay their debts. The credit system would collapse.

Yet 1865 was remarkable for the comparative fewness of its bankruptcies. Dun's agency reported only 500 failures for that year, as against 5,900 in 1861. The liabilities in the 1865 failures likewise were only one-tenth of those in 1861. "When the war ended we all knew we should have a panic," wrote a business man of the period. "Some of us, like Mr. Hoar, expected that Greenbacks and volunteers would be disbanded together. Others expected gold to fall to 101 or 102 in a few days. Others saw a collapse of manufacturing industry owing to the cessation of government purchases. But we all knew a crisis was coming and having set our houses in order accordingly, the crisis, of course, never came."* Instead, the activity of the Northern States during the Civil War continued after the war. A million men in the army were reabsorbed by industry, trade and agriculture with little shock and business activity continued until the crisis of '73. The South was prostrate for a long time after the war, but the North went on vigorously. The situation then, however, was different from the situation now in many ways.

Greenback Depreciation

The rise in Civil War prices was due chiefly to the depreciation of the Greenback dollar, which at its lowest in July of '64, was worth only 35 cts. in gold. There was no world-wide shortage of goods except cotton. The prices were not gold prices but paper money prices. They represented, not a rise in the value of goods, but a fall in the value of the paper dollar. Vice versa, the fall in prices in 1865 represented a rise in the value of the paper dollar as the victory of the North became assured and it became probable that the Government would redeem its paper money in gold at a reasonably early date. High prices today in the United States, however, are high *gold* prices, representing real scarcities of supplies of almost all kinds.

* Quoted by W. C. Mitchell, *History of the Greenbacks*, p. 390. Mr. Mitchell has recently pointed out the analogy between Civil War conditions and those of the present.

But this difference does not upset the parallel between 1865 and the end of the present war. The business man's contracts run in dollars, not in gold. Cheap and fluctuating legal tender paper money is a great evil, but for short run purposes it will pay debts. A rise in the value of the dollar, reducing prices of the goods the business man has to sell, without reducing the prices he has contracted to pay for them or the loans at the bank he has to meet, is at least as hard on him as a fall in prices through increased supplies of goods. Foresight saved the business men of 1865. Foresight will save the business men of today.

Business men generally are anticipating just this change. They are carrying light stocks of goods, partly through caution, and partly because scarcities have been so great that they cannot obtain heavy stocks. Businesses producing munitions are protected by their contracts with the Government against loss from the sudden cessation of war demand. The credit situation is safer today than at the end of the Civil War. Banks today have been more prudent and scientific in extending credits than banks in the Civil War period were. There is a smaller proportion of long time mercantile credit as between wholesaler and retailer or between manufacturer and wholesaler. With the general expectation of the decline in prices we may expect business to meet it with safety. Only that man should suffer who goes light-heartedly on, on the theory that present prices are to last forever.

Six Principal Points in Post-War Conditions

There will be no crisis, but can there be real industrial activity in the United States? To answer this question we must consider six principal points:

(a) The physical needs of Europe today.
(b) The financial and credit resources of Europe.
(c) The United States as the main source of loanable capital.
(d) The policy of our Federal Government, States and municipalities in after-the-war expenditure.
(e) The relations of labor and capital.
(f) Our commercial policy toward both our Allies and our foes.

(a) **THE PHYSICAL NEEDS OF EUROPE TODAY.** A second great difference between the North at the end of the Civil War, and most of the belligerent countries today, is to be found in the fact that the North had great undeveloped natural resources, and, largely as a consequence, could get credit in foreign countries. Today, of course, our undeveloped resources are much reduced after a half century of rapid exploitation, while Europe, with the exception of Russia, has largely developed her resources. In Belgium before the war there was a very dense population on very limited land. The balance of population and resources was so delicate that the loss of a dog—used as a draft animal—might easily ruin a peasant family, and it was the practice of the peasants to insure their dogs. Thrift and industry made it possible for these people to live in modest prosperity, but the margin was narrow, and four years of Kultur have wiped out that margin. Through the agricultural sections of western Europe very much of the soil itself was artificial, and a peasant in leaving a piece of land was privileged to take away several inches of the top soil with him, as it represented an artificial product rather than a natural resource.

The actual destruction in the battle zone of soil, buildings, improvements, railroads, cities, factories and mines has been appalling, and the failure to make good depreciation in capital equipment of all kinds, including the artificial fertility of the soil, throughout Europe during the past four years has been very great. Europe has much less to build on than the Northern States had at the end of the Civil War, in comparison with population. Russia, the one European country which has great virgin resources, is so torn by political and social turmoil that it cannot be expected to begin at once the orderly processes of economic life.

Europe's Needs and Resources

What are the prospects of active business following peace? What has just been said will show the tremendous *need* for products of all kinds. Consumption has been repressed. People are wearing old clothing and old shoes. Housing supplies have run down. Hunger, long standing, is eager for relief. The need for new capital: equipment, machinery, rails, and raw materials, is very great. But can this *need* be converted into that *effective demand* which will keep wheels

turning and chimneys smoking? Is not the world rather going to be bankrupt with its resources laid waste, and with its huge war debts? Can a people which must pay enormous taxes merely to meet interest on a war debt find funds to buy anything with?

(b) **THE FINANCIAL AND CREDIT RESOURCES OF EUROPE.** The picture above is blacker than need be. For a country which has done most of its borrowing at home it may be said that the burden of the war is over when the war itself is over. The real cost of the war is in the men killed and maimed, in the infant mortality, in the destruction of property, in the reduced consumption of articles of necessity, comfort and luxury by the population. This cost is borne during the war, and after the war is over the price has been paid. This is simple when viewed from the standpoint of physical goods and services, but it is not so easily seen from the financial side. The figures of the war debt remain and the heavy taxes to pay the interest charges and to pay off the principal at maturity remain. If, however, we can look at the country as one great family it is clear that no financial burden exists. What the family pays out of one pocket in taxes, it receives back in another pocket in the interest on the bonds which it holds. If every tax payer held bonds in the precise proportion that he paid taxes he would neither be richer nor poorer because of the existence of the bonds and the taxes to pay them off, except to the extent that the collection and disbursement of taxes involves a certain amount of expense.

Of course the matter is not so simple as this. Tax payers and bondholders are not exactly identical. The burden of paying taxes may fall on one part of the population and the interest on the bonds may go to another. With present taxing methods, it is highly probable that the heavier proportion of the burden will fall on the rich rather than on the poor, although this has not been true of war debts in the past. In any case it is true that the income of the people in the aggregate is not diminished by the taxes required for meeting the war debt. Rather, there is simply a larger circulation of funds taken from the pockets of the people into the treasury of the state and returned to the pockets of the people again. If scientifically managed this process need not involve bankruptcy or leave the business of the countries without a margin for borrowing abroad.

Discrimination in Laying Taxes

Nor is it true that the imposition of taxes to meet the interest on the bonds and amortize the principal need be a handicap to industry and trade, in competition with the industry and trade of other countries less heavily burdened. A tax on alcohol restricts the production of alcohol, driving labor and capital into other industries where lighter taxes are found. But a tax laid on net income without reference to the source from which the income is derived does not lessen production, since men could not escape the tax by any change that they might make in their methods of making an income. Taxes on inheritances without reference to the manner of their accumulation, unless pushed so far as to make men feel hopeless about the prospect of providing for their children, need not lessen industry and trade. Inheritance taxes should be used to reduce the principal of the war debt, however, and not used to pay interest. Inheritance taxes are taxes on capital accumulations, and if used as income by the Government, lead to a reduction in the capital of the country. Taxes on land, within considerable limits, cannot be shifted in the form of higher prices, and will not lessen the use of land in production. Discrimination in the use of taxation is necessary. Some taxes depress industry and trade; others do not. The taxes to meet the war debts, therefore, need not prevent industrial revival.

The case is different with a country which has borrowed very largely from other countries. A foreign debt is a harder matter to meet. It represented a real gain in goods and supplies over and above the current products of the country's industry at the time the debt was contracted, and it represents a real loss to the country when the time comes to pay it. Some of the weaker countries with large indebtedness to stronger allies may find difficulty in meeting interest charges at the end of the war.

To meet this situation, and to obtain credit which will enable them to get the machinery and supplies necessary for industrial rehabilitation, it may be necessary for them to resort to some such financial expedients as we are accustomed to in connection with bankrupt railroads—they may find it necessary to issue "receivers' certificates," new credit instruments which take precedence over all previous debts. A court in charge of a bankrupt railroad not infrequently, through its agent, the "receiver," will issue such securities to provide necessary

new equipment for the road. Such a step is generally regarded as desirable from the standpoint of all concerned, including the old creditors whose claims are deferred thereby. If the road can be set going again by the new capital thus obtained, their prospects of ultimately being paid are improved, and if the thing is honestly handled they have no grievance. This is often done, in strict legal form, by weak governments, through the pledge of special revenues, as the customs receipts of a given port.

United States the Main Reliance for Capital

We may expect in most of the countries of Europe a general pooling of credit resources looking toward the provision of credit for necessary industries. It is right that those who have suffered least in the course of the war should aid those who have suffered most. Something of this sort has been suggested by M. Klotz, the French Minister of Finance. In various ways we may expect the belligerent countries to provide the basis for credit with which to secure the needed new capital.

(c) **THE UNITED STATES AS THE MAIN SOURCE OF LOANABLE CAPITAL.** From what countries can the new capital now come? The North at the end of the Civil War could draw to a considerable extent upon rich domestic capitalists. It could draw largely on England, The Netherlands, and France. But the sources of new capital in the period immediately following the present war are, in proportion to the demand, much less abundant than was then the case. The one great source must be the United States themselves. Japan can lend to some extent, as shown by her loans during the war to Great Britain, Russia, France, and China, totaling over $900,000,000. Certain of the South American countries may be able to provide some credits. Perhaps the neutrals of Europe—all minor states—can aid substantially, though it is probable that they themselves will also need a great deal of new equipment, as their own plants have been allowed to deteriorate to no small extent.

But the main reliance must be on us. We must continue to tighten our belts and must continue to lend and invest. Europe will owe us hundreds of millions a year in interest payments alone, and at the least we must re-invest this in Europe. But we must go far beyond

this for years to come. We must save and invest extensively. Long time interest rates on investments, lower than at present, but still continuing for years above the pre-war level, will tempt us to do this.

(d) **GOVERNMENTAL AFTER-THE-WAR EXPENDITURE.** We should, however, face the possibility that the restoration of European credit with a large volume of demand for our steel, machinery, raw materials and manufactures, may not immediately materialize. The probability is not great but it should be provided against.

Students of the "business cycle"—the alternation of prosperity, crisis, depression and prosperity again which has characterized the last century and a quarter—have proposed that the fluctuations should be lessened by a concentration of government purchases in the period of depression and by a withdrawal of the Government from the markets as far as possible through the period of greatest activity when prices are highest and labor is working overtime.

Public Expenditure as a Balance Wheel

The notion is applicable at the present time, especially as the railroads are to remain in the Government's hands for a good many months at all events after the war. The Federal Government, States and municipalities should have ready a program of expenditures, building, railroad construction, river and harbor construction and other things, which they can put into effect if unemployment appears, but which they will not put into effect unless unemployment appears.

The very knowledge that such a resource is held in reserve would in itself give a solid basis of confidence to business and would tend to prevent depression and unemployment. The temporary relief works, which have been provided by municipalities and other agencies in times of distress, municipal wood yards and the like, do some good but also do harm. It is much better that the Federal Government, the States and the municipalities should make orderly plans running through periods of several years, so that they can make their expenditure through the ordinary channels of trade when depression appears.

Plans of this sort should be viewed as precautions, merely. There is reason to expect a large foreign demand, and to expect that

a large volume of domestic demand, for new equipment and for consumer's goods, repressed by war time prices, will spring at once into life as prices go lower.

(e) **THE RELATIONS OF CAPITAL AND LABOR.** Falling prices will be accompanied by falling wages. A recent estimate* would justify the view that over 18,000,000 of our people are at present engaged, directly or indirectly, in war work, including the millions employed in the Army, Navy, and Marine Corps. Many of these workers will remain in their present positions, as the plants in which they work will merely shift back from war work to peace work, but millions will be thrown on the pre-war labor market. Demand for their services exists, but only at much lower wages. The process of readjustment calls for tact and fairness on the part of both employers and laborers, and for skillful public guidance.

Danger from Extremists

The danger in the situation lies in the existence of two bodies of extremists. On the one hand is a radical labor element, inspired by the sentiments of the Russian Bolsheviki, more interested in an industrial revolution than in conditions of work and rates of pay; on the other hand, a body of employers who have always opposed labor organizations and who may seek to take advantage of after-the-war conditions to bring about what they call the "liquidation of labor." This phrase seems to carry with it not alone the idea of reduction of wage rates, but also the destruction of labor unions. Labor has taken advantage of its fortunate situation in the last three years to unionize a great many shops which had hitherto not been unionized. The policy of the Government in connection with war work has been sympathetic to labor in this matter, though the Government policy has not been extreme. Labor will do well to recognize that present wages cannot be maintained. Business men will do well to recognize that the achievements of labor in the direction of unionization during the war are permanent achievements. Both may be counted on to recognize these facts. The magnificent loyalty of both labor and capital during the war, and the friendliness with which leaders of labor and capital have met in the council chambers of the Government, inspire a hope that extremists among both will be sufficiently

* Federal Trade Information Service, Oct. 23, 1918, p. 197. This estimate places the number at 20,000,000, but it includes 2,300,000 railroad employees who are only partly engaged in war work.

outweighed by patriotic and farsighted men to enable them to do the work so vitally necessary in the rehabilitation of the world, without the interruption of labor trouble.

Both labor and capital will find it profitable, instead of contending over inevitable facts, to consider their common interest in a large output. It is, of course, clear that the employer's ability to pay wages rests fundamentally on what the factory produces. But laborers do not always see the connection. If working on a time basis, they may fail to see it entirely. If working on piece rates, they may fear that increased output will lead merely to reduced piece rates. Before the connection between wages and output is made a *necessary* connection, at least another link must be introduced. This necessary link is to be found in such bargaining power on the part of the laborer that he is able to make sure of his share in the increased output. To this should be added some participation by the laborers themselves in the management of the shop, which will cause them to think about the problems of output and efficiency. At present, labor distrusts the "efficiency movement" superimposed from above. An efficiency movement, however, in the shaping of which labor has itself had a voice, and the gains of which it is able to protect by effective organization, may expect to have a happier fate.

The Good Will of the United States

(f) **OUR POLICY IN FOREIGN COMMERCE.** The capital of the world does not consist of physical goods alone. In large part capital is just physical goods, "the produced means of production," railroads, factories, live stock, goods on shelves, ships, improvements on land, etc. But the business man also counts as part of his capital his "good will," an intangible thing, not to be weighed on the scales or measured by the yard stick, but none the less essential in the prosecution of his business. This good will consists of established trade connections, franchise rights, an effective working organization within his business, a good name among the consumers of his products, the good will of his employees, satisfactory relations with his Government and with the governments, consumers, business men and bankers of other countries in which he must deal.

The war has destroyed much of the world's capital in this particular, though a partial offset must be found in the building up of new connections among the business men and bankers of the countries allied

together. But as between the hostile camps very much has been destroyed. It must be rebuilt. We must make sure very especially that our Allies are convinced of our intention to be fair to them. They must not fear that with our great strength, with our huge gold accumulation, with our factories running at full blast, and with our new volume of shipping, we have any disposition to crowd them out of the markets of the world. Unless they can do business, unless they can produce and can sell their products, they cannot buy from us nor can they pay the interest on their indebtedness to us. From the lowest standpoint of national selfishness, therefore, it is to our interest to aid them in rebuilding their industrial efficiency and their markets.

Free Gold Market Necessary

Above all there must be no scramble for gold after the war. The rest of the world must know that as it needs gold and is willing to pay for it, it can get it from us. We must have a free gold market and must put no legal obstacles in the way of free flow of gold. If bankers all over the world should become frightened as to the prospects of gold, they would restrict credits, and a real crisis would come. There is plenty of gold to finance the after-the-war reconstruction if it is intelligently used. There is no danger that the United States will be short of gold after the war. With our huge gold accumulation, and with the heavy interest payments due us from the outside world, the prospect is rather that we will have more gold than it is economical for us to keep. Our Federal Reserve system moreover, should enable us to get along after the war with comfort with even less gold than we had before the war.

Even Germany must be rehabilitated—and this thought springs from no love for Germany and from no desire to mitigate the punishment which is her due. Germany has committed unspeakable crimes. The outraged conscience of the world justly demands condign punishment. But it is not to the interest of the rest of the world, nor is it necessary to the vindication of outraged justice, that this punishment should take the form of rendering Germany economically helpless. We will deprive Germany of her control over those territories which she has stolen—from Poland, from Denmark, and from France. We have placed her in a position which will remove forever the menace of her military power. We will impose upon her indemnities, heavy indemnities, which will tax the efforts of her people for a generation

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The Good Will of the United States

(f) **OUR POLICY IN FOREIGN COMMERCE.** The capital of the world does not consist of physical goods alone. In large part capital is just physical goods, "the produced means of production," railroads, factories, live stock, goods on shelves, ships, improvements on land, etc. But the business man also counts as part of his capital his "good will," an intangible thing, not to be weighed on the scales or measured by the yard stick, but none the less essential in the prosecution of his business. This good will consists of established trade connections, franchise rights, an effective working organization within his business, a good name among the consumers of his products, the good will of his employees, satisfactory relations with his Government and with the governments, consumers, business men and bankers of other countries in which he must deal.

The war has destroyed much of the world's capital in this particular, though a partial offset must be found in the building up of new connections among the business men and bankers of the countries allied

together. But as between the hostile camps very much has been destroyed. It must be rebuilt. We must make sure very especially that our Allies are convinced of our intention to be fair to them. They must not fear that with our great strength, with our huge gold accumulation, with our factories running at full blast, and with our new volume of shipping, we have any disposition to crowd them out of the markets of the world. Unless they can do business, unless they can produce and can sell their products, they cannot buy from us nor can they pay the interest on their indebtedness to us. From the lowest standpoint of national selfishness, therefore, it is to our interest to aid them in rebuilding their industrial efficiency and their markets.

Free Gold Market Necessary

Above all there must be no scramble for gold after the war. The rest of the world must know that as it needs gold and is willing to pay for it, it can get it from us. We must have a free gold market and must put no legal obstacles in the way of free flow of gold. If bankers all over the world should become frightened as to the prospects of gold, they would restrict credits, and a real crisis would come. There is plenty of gold to finance the after-the-war reconstruction if it is intelligently used. There is no danger that the United States will be short of gold after the war. With our huge gold accumulation, and with the heavy interest payments due us from the outside world, the prospect is rather that we will have more gold than it is economical for us to keep. Our Federal Reserve system moreover, should enable us to get along after the war with comfort with even less gold than we had before the war.

Even Germany must be rehabilitated—and this thought springs from no love for Germany and from no desire to mitigate the punishment which is her due. Germany has committed unspeakable crimes. The outraged conscience of the world justly demands condign punishment. But it is not to the interest of the rest of the world, nor is it necessary to the vindication of outraged justice, that this punishment should take the form of rendering Germany economically helpless. We will deprive Germany of her control over those territories which she has stolen—from Poland, from Denmark, and from France. We have placed her in a position which will remove forever the menace of her military power. We will impose upon her indemnities, heavy indemnities, which will tax the efforts of her people for a generation

to repay. But if we wish her to *pay* those indemnities, we must set her to work again.

Policy Toward Germany

Further, we must recognize that a rich neighbor is a good customer. The great bulk of the world's trade takes place among the rich, well developed, prosperous countries. Trade between England and Germany before the war, or between France and Germany before the war, was much more important to those countries than any amount of trade that any of them could expect to develop with outlying regions. If an inconclusive peace had been reached, the only way to keep Germany from becoming dangerous again might be to keep her impoverished by an economic boycott. But Germany is crushed, and we may be sure that our diplomats and the diplomats of our allies will transform the military victory into a permanent and safely guarded peace. That accomplished, Germany's prosperity adds to the prosperity of the world. International trade is advantageous to both parties in the transaction. There is work enough for all the nations to do. Four years of war have impoverished the world in the most fundamental sense—have brought great scarcities of all kinds of necessary commodities. The world needs the labor of every country.

The Germans did not believe it before the war. They felt that they could grow rich only by crowding other nations out of the world's markets. They had a crude and a false economic philosophy. The truth is that production and consumption grow together; that countries pay for their imports with their exports; that an increasing supply of goods means an increasing demand for other goods; that there is room in the world for many rich nations; and that all are better off as each grows richer.

Caution is needed here. The Germans have had bad commercial habits. German banks, steamship lines, manufacturers, merchants, consular agents, government spies and other agencies, all acting together under close direction of the German Government, with the German army and navy ready in the background, have in the past acted with a common purpose of driving other countries out of foreign markets by means which went far beyond legitimate commercial practices. We need not be afraid of German industry so long as it is content to compete in the world's market by means of quality and cheapness of goods. But if the whole economic and governmental

organization of Germany is to act as a unit, pooling their resources, seeking to offset losses through price-cutting in one industry by gains made in another—if practices of this sort on the part of Germany have to be met in the future, America, England, France and other countries will have to take steps to meet them. But it is improbable that Germany will be in any position to attempt tactics of this sort. Indeed it should be part of our diplomatic program at the peace table to ensure such a political reorganization of Germany as will free business and banking in Germany from their close subservience to governmental policy, and from their dependence upon governmental guidance.

Business Divorced from Political Intrigue

A free world should mean a world where the intelligent business man can seek those lines of enterprise where profits are promising, rather than those lines of enterprise which will further the political plans of an aggressive government.

The war will have been fought in vain if it forces the free enterprise of England, France and the United States to tie themselves to the governments' apron strings in the manner in which German enterprise before the war was tied. We have not fought a war to make the world safe for democracy and freedom if the outcome is to force upon the world a universal adoption of those German business methods which make for constant friction and danger of war in the business relations of the world. Commerce fairly carried on makes for peace, not war. Commerce fairly carried on makes for friendly relations between the business men and the countries trading with one another and lessens danger of wars. It is only when commerce, organized on a vast scale, becomes the tool of designing diplomats and militaristic governments, that it becomes a menace to the world's peace.

When real peace comes, and the nations of the world look forward with confidence to a long peace, we may expect very much less of governmental control over trade and industry than now exists and much less contralization of government than has been necessary in the period of the war. War and danger lead to the concentration of authority in the hands of a central government. Prolonged peace gives scope to local self-government and to the free play of industry and trade.

Summary

In summary: although all prediction in economic matters is to be accepted with caution, we may expect the Civil War parallel to hold so far as falling prices and the absence of crisis caused thereby are concerned. But the continuance of business activity will have to rest on a square deal to labor, and on a generous policy of lending on the part of the United States, the one great country which has a large surplus. Europe has a sound basis of credit to offer. Her people are intelligent, efficient and accustomed to pay their debts. They are impoverished in the present, but their industry and frugality will give them wealth in the future. Their great war debts, so far as held by their own people, need not seriously weaken their credit with the outside world. Even those weaker countries with large foreign debts may still secure new capital from outside on "receiver's certificates" or on pledge of special revenues. Our own interests are bound up in a magnanimous foreign policy. Especially must we let gold go freely when it will. Unless the rest of the world can revive its commerce and industry, it cannot buy our goods or pay its debt to us. International trade is a matter of reciprocal advantage. All the world shares in the prosperity of a country which plays the game fairly. But the game of commerce must not be played in the future as an adjunct to piratical diplomacy—nor must the game of diplomacy be played as an adjunct to selfish business. We must free the world from the German spirit, as well as from the German armies.

National Bank of Commerce in New York

ORGANIZED 1839

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James S. Alexander

Vice-Presidents
R. G. Hutchins, Jr. — John E. Rovensky
Herbert P. Howell — Faris R. Russell
J. Howard Ardrey — Guy Emerson
Stevenson E. Ward — Louis A. Keidel

Cashier
Richard W. Saunders

Assistant Cashiers
A. J. Oxenham, William M. St. John, A. F. Maxwell, John J. Keenan, Gaston L. Ghegan, A. F. Broderick, Everett E. Risley, H. P. Barrand, R. H. Passmore, H. W. Schrader, R. E. Stack, L. P. Christenson, E. A. Schroeder

Statement of Condition

November 1, 1918

RESOURCES

Loans and Discounts	$307,609,266.34
Overdrafts, secured and unsecured	34,717.82
U. S. Certificates of Indebtedness and Liberty Bonds	96,560,090.37
Other Bonds and Securities	10,034,212.13
Stock of Federal Reserve Bank	1,200,000.00
U. S. and Other Bonds Borrowed	24,689,450.00
Bonds Loaned	50,000.00
Banking House	2,000,000.00
Due from Banks and Bankers	5,041,141.05
Checks and other cash items	3,262,846.30
Exchanges for Clearing House	49,315,517.36
Cash in Vault and Net Amount Due from Fed. Res. Bank	46,487,833.87
Interest Accrued	1,464,253.05
Customers' Obligations a/c Bank's Contingent Liability	1,440,000.00
Customers' Liability under Letters of Credit and Acceptances	42,210,499.09
	$591,399,827.38

LIABILITIES

Capital Stock paid in	$25,000,000.00
Surplus Fund	15,000,000.00
Undivided Profits, less expenses and taxes paid	9,376,660.45
Reserved for Taxes, etc.	3,096,833.25
Dividends unpaid	17,525.00
Letters of Credit	10,098,242.26
Acceptances executed for Customers	32,591,498.60
Deposits	379,835,997.64
U. S. and Other Bonds Borrowed	24,689,450.00
Unearned Discount	1,726,110.99
Bills Payable with the Federal Reserve Bank	88,000,000.00
Liabilities other than those above stated	1,967,509.19
	$591,399,827.38

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TITLE